

FISCAL NOTE
HB 249 - SB 1175

February 13, 2005

SUMMARY OF BILL: Provides a franchise and excise (F&E) tax credit equal to 15% of the amount spent by a taxpayer on qualified research and experimental expenses for research conducted in Tennessee. Any unused credit could be carried forward up to 15 years.

ESTIMATED FISCAL IMPACT:


Increase State Expenditures - \$51,200 One-Time
Decrease State Revenues – Exceeds \$70,400,000 FY05-06
Exceeds \$180,300,000 FY06-07

Assumptions:

- The National Science Foundation estimates that Tennessee R&D expenditures in 2000 were \$1.215 billion.
- Assuming 3% annual growth, \$1.409 billion would be spent in 2005 and \$1.451 billion would be spent in 2006.
- An effective date of January 1, 2006.
- Due to effective date assumption, only two quarters of F&E tax credit would be granted in FY05-06. In FY06-07 and thereafter, tax credit would be granted for the full fiscal year.
- One-third of annual tax credit carried forward to next fiscal year.
- Other F&E tax credits must be used prior to 15% R&D tax credit.
- Estimated decrease in state revenues for FY05-06 exceeds \$70,400,000 = (\$1.409 billion spent X 15% F&E tax credit X one-half fiscal year X two-thirds of annual credit used).
- Estimated decrease in state revenues for FY06-07 and thereafter exceeds \$180,300,000 = (\$1.451 billion X 15% F&E tax credit X two-thirds of annual credit used) + (\$35,189,775 for one-third of FY05-06 tax credit carried forward).
- One-time expenditures of \$51,200 are for computer programming changes that would be required by the Department of Revenue.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director